

FOREST AREA COMMUNITY SCHOOLS

FIFE LAKE, MICHIGAN

JUNE 30, 2008

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2008

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August 13, 2008

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Forest Area Community Schools
Fife Lake, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Forest Area Community Schools* (the "School District") as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Forest Area Community Schools as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2008, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages iii – viii and budgetary comparison information on page 22, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the School District. The combining non-major fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

This section of the Forest Area Community Schools annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2008.

Financial Highlights

Total General Fund revenues were \$7,179,787. Fund balance increased by \$53,042.

Enrollment in the District decreased by 34 students to 840 students.

Outlays for capital assets totaled \$160,020 and consisted primarily of two bus purchases.

Total long-term debt retired during the year amounted to \$275,000.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information and combining financial statements of non-major funds. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements*. These statements provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the District-wide statements.
 - The *governmental funds statements* tell how basic services such as regular and added needs programs were financed in the *short term* as well as what remains for future spending.
 - *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information and combining statements that further explains and supports the financial statements, including a comparison of the District's budget for the year.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

District-Wide Statements

The District-wide statements report information about the district as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are reported as *governmental activities*. The District's basic services are included here, such as regular and added needs education, administration, transportation, food services and athletics. Property taxes, State formula aid and Federal grants finance most of these activities.

The District has no activities meeting the definition of *business-type activities* as interpreted by the Michigan Department of Education.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Education establishes other funds to control and manage money for particular purposes, i.e., the Athletics Fund.

The District has two kinds of funds:

Governmental funds – Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or

FOREST AREA COMMUNITY SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

Fiduciary funds – The District is the trustee, or *fiduciary*, for assets that – because of a trust arrangement- can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Summary of Net Assets

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Assets		
Current Assets	\$ 2,179,048	\$ 2,052,136
Capital Assets	7,069,657	7,018,377
Less: Accumulated Depreciation	<u>(4,234,832)</u>	<u>(4,074,044)</u>
Capital Assets, Net Book Value	<u>2,834,825</u>	<u>2,944,333</u>
Total Assets	<u><u>\$ 5,013,873</u></u>	<u><u>\$ 4,996,469</u></u>
Liabilities		
Current Liabilities	\$ 1,359,206	\$ 1,323,492
Long-Term Liabilities	<u>1,032,973</u>	<u>1,231,808</u>
Total Liabilities	<u>2,392,179</u>	<u>2,555,300</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,929,825	1,815,598
Restricted	67,611	86,413
Unrestricted	<u>624,258</u>	<u>539,158</u>
Total Net Assets	<u>2,621,694</u>	<u>2,441,169</u>
Total Liabilities and Net Assets	<u><u>\$ 5,013,873</u></u>	<u><u>\$ 4,996,469</u></u>

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

The analysis above focuses on the net assets of the district while the change in these net assets is discussed below. The School District's net assets were \$2,621,694 at June 30, 2008, an increase of \$180,525 over the prior year. Capital assets net of related debt reports the original cost, less depreciation of capital assets minus long term debt used to finance these acquisitions.

Statement of Activities

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Revenues:		
General Revenues:		
Property Taxes	\$ 1,165,595	\$ 1,219,047
State Sources	5,162,717	5,322,661
Investment Earnings	62,481	64,640
Other	123,434	54,643
Program Revenues:		
Charges for Services	118,879	102,056
Operating Grants and Contributions	<u>1,073,789</u>	<u>1,103,940</u>
Total Revenues	<u>7,706,895</u>	<u>7,866,987</u>
Expenses:		
Instruction	4,513,493	4,514,732
Support Services	2,199,135	2,277,391
Food Services	383,010	382,387
Athletics	151,541	132,673
Community Services	0	12,747
Other	0	87,097
Capital Outlay	0	9,958
Interest on Long Term Debt	39,548	35,419
Depreciation	<u>239,643</u>	<u>235,544</u>
Total Expense	<u>7,526,370</u>	<u>7,687,948</u>
Change in Net Assets	<u><u>\$ 180,525</u></u>	<u><u>\$ 179,039</u></u>

The cost of all the District's activities this year was \$7,526,370. Some activities were partially funded by those who benefited from the programs in the amount of \$118,879 or by governmental subsidies of \$1,073,789. The difference between these two figures and the total of the District's expenses of \$7,526,370 is \$(6,333,702). This clearly points out the significant reliance placed on State resources of \$5,162,717 and local taxpayers' dollars of \$1,165,595 to fund the District's activities. Consequently, the

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

Board of Education and Administration must annually evaluate the needs of the District to balance with available unrestricted funding.

The school district experienced an increase of \$180,525 in net assets. This was primarily attributable to making necessary budget adjustments and purchasing necessary items only. The difference between the change in net assets and the change in fund balance is provided in a reconciliation in the financial statements.

Financial Analysis of the District's Funds

As the District completed the year, its governmental funds reported combined fund balance of \$1,032,378 a 2 percent increase over last year's ending fund balances of \$1,010,384.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments fall into three categories:

- Changes made to account for new revenues sources and the accompanying expenditures.
- Changes in state aid allocations.
- Increases in appropriations to prevent budget overruns.

The district's final budget for the general fund anticipated that revenues would exceed expenditures by \$35,719; the actual results for the year show a \$53,042 increase.

- Actual revenues approximated budgeted revenues.
- Likewise, actual expenditures approximated budgeted expenditures.

Capital Assets

By the end of 2008, the District had invested \$7,069,657 in a broad range of capital assets, including school buildings, land, athletic facilities, computer and audio-visual equipment and administrative offices. Total depreciation expense for the year was \$239,643. These investments are summarized as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Capital Assets	\$ 7,018,377	\$ 160,020	\$108,740	\$ 7,069,657
Less: Accumulated Depreciation	(4,074,044)	(239,643)	(78,855)	(4,234,832)
Net Investment Capital Outlay	\$ 2,944,333	\$ (79,623)	\$ 29,885	\$ 2,834,825

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2008

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The District is plaintiff with other Michigan school districts in a lawsuit against the state, seeking to rectify inequities in the method the State uses to appropriate special education aid to the districts.
- The retirement rate for 2007-2008 was 16.72%. The new retirement rate effective October 1, 2008, will be 16.54%. With continued climate of state funding, volatility of the retirement rate is an on-going concern.
- The District experienced health insurance premium increases for support, administration staff and certified staff. The rising cost of health insurance continues to be a national problem.
- The District's preliminary student count for the 2008-2009 school year, the basis on which foundation grants are paid by the State to the District, is down from the fiscal year 2007-2008 student count.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager's Office, 7741 Shippy Rd, Fife Lake, Michigan 49633.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 644
Due from Other Governments	1,043,890
Inventory	6,864
Investments	<u>1,127,650</u>
Total Current Assets	2,179,048
<u>NON CURRENT ASSETS</u>	
Capital Assets, Net of Accumulated Depreciation	<u>2,834,825</u>
TOTAL ASSETS	<u><u>\$ 5,013,873</u></u>
<u>LIABILITIES AND NET ASSETS</u>	
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$ 251,500
State Aid Note Payable	157,044
Salaries Payable and Related Expenses	738,126
Accrued Interest Payable	5,589
Current Portion of Long-Term Liabilities	<u>206,947</u>
Total Current Liabilities	1,359,206
<u>Non Current Portion of Long-Term Liabilities</u>	<u>1,032,973</u>
Total Liabilities	<u>2,392,179</u>
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	1,929,825
Restricted for Debt Service	67,611
Unrestricted	<u>624,258</u>
Total Net Assets	<u>2,621,694</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,013,873</u></u>

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS

FIFE LAKE, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

FUNCTIONS/PROGRAM	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATION GRANTS AND CONTRIBUTIONS	ACTIVITIES
				NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 4,513,493	\$ 0	\$ 744,054	\$ (3,769,439)
Supporting Services	2,199,135	16,221	44,988	(2,137,926)
Food Service	383,010	85,007	284,747	(13,256)
Athletic	151,541	17,651	0	(133,890)
Interest on Long-Term Debt	39,548	0	0	(39,548)
Depreciation-Unallocated	239,643	0	0	(239,643)
Total Governmental Activities	\$ 7,526,370	\$ 118,879	\$ 1,073,789	(6,333,702)
<u>GENERAL REVENUES</u>				
Property Taxes - General Purpose				1,007,780
Property Taxes - Debt Service				157,815
State Sources				5,162,717
Investment Earnings				62,481
Other				123,434
Total General Revenues				6,514,227
Change in Net Assets				180,525
<u>NET ASSETS</u> - Beginning of Year				2,441,169
<u>NET ASSETS</u> - End of Year				\$ 2,621,694

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General Fund	Other Non Major Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash	\$ 208	\$ 436	\$ 644
Due from Other Governments	1,041,056	2,834	1,043,890
Due from Other Funds	0	2,538	2,538
Inventory	0	6,864	6,864
Investments	1,009,545	118,105	1,127,650
 TOTAL ASSETS	 \$ 2,050,809	 \$ 130,777	 \$ 2,181,586
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable, Salaries Payable and Related Expenses	\$ 986,866	\$ 2,760	\$ 989,626
Due to Other Funds	2,538	0	2,538
State Aid Note Payable	157,044	0	157,044
 Total Liabilities	 1,146,448	 2,760	 1,149,208
<u>FUND BALANCES</u>			
Reserved for Inventory	0	6,864	6,864
Reserved for Debt Retirement	0	73,200	73,200
Unreserved, Designated for, Reported in Special Revenue Fund	0	47,953	47,953
Unreserved, Undesignated	904,361	0	904,361
 Total Fund Balances	 904,361	 128,017	 1,032,378
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 2,050,809	 \$ 130,777	 \$ 2,181,586

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS

JUNE 30, 2008

Total Governmental Fund Balances		\$ 1,032,378
Amounts reported for governmental activities in the statement of net are different because:		
Capital assets used in governmental activities are not financial and are not reported in the funds		
The cost of the capital assets is	\$ 7,069,657	
Accumulated depreciation is	<u>(4,234,832)</u>	2,834,825
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds Payable (Net of Deferred Charges)		(936,220)
Accumulated Sick Leave		(303,700)
Accrued interest is not included as a liability in government funds; it is recorded when paid		<u>(5,589)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 2,621,694</u></u>

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General Fund	Other Non Major Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$ 1,266,913	\$ 266,781	\$ 1,533,694
States Sources	5,565,819	19,132	5,584,951
Federal Sources	347,055	265,615	612,670
Total Revenues	7,179,787	551,528	7,731,315
<u>EXPENDITURES</u>			
Instruction	4,546,665	0	4,546,665
Supporting Services	2,321,190	0	2,321,190
Food Service	0	383,010	383,010
Athletic	0	151,541	151,541
Debt Service	125,000	181,915	306,915
Total Expenditures	6,992,855	716,466	7,709,321
Excess (Deficiency) of Revenues Over Expenditures	186,932	(164,938)	21,994
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	133,890	133,890
Transfers Out	(133,890)	0	(133,890)
Total Other Financing Sources (Uses)	(133,890)	133,890	0
Net Change in Fund Balance	53,042	(31,048)	21,994
<u>FUND BALANCE</u> - Beginning of Year	851,319	159,065	1,010,384
<u>FUND BALANCE</u> - End of Year	\$ 904,361	\$ 128,017	\$ 1,032,378

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

Net Change in Fund Balances Total Governmental Funds	\$ 21,994
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Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(239,643)
Capital Outlay	160,020

In the Statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balances by the cost of the capital assets sold net of accumulated depreciation.

Cost of Capital Assets Sold or Disposed of	(29,885)
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Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	6,740
Accrued Interest Payable - End of Year	(5,589)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)	275,000
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Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities	(8,784)
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Accumulated sick leave is reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accumulated sick leave - Beginning of Year	304,372
Accumulated sick leave - End of Year	<u>(303,700)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 180,525</u></u>
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The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

JUNE 30, 2008

	<u>Agency Funds</u> <u>Student</u> <u>Activities</u>
 <u>ASSETS</u>	
Cash and Cash Equivalents	\$ 786
Investments	47,719
	<hr/>
Total Assets	\$ 48,505
	<hr/> <hr/>
 <u>LIABILITIES</u>	
Due to Student Groups	\$ 48,505
	<hr/> <hr/>

The notes to the financial statements are an integral part of this statement.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Forest Area Community Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

Forest Area Community Schools (the "District") is located in Grand Traverse and Kalkaska Counties with its administrative offices located in Fife Lake, Michigan. The District is governed by the Forest Area Community Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District provides services to 840 students. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt;

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restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Other Non-major Funds

The *special refund funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *debt service funds* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This

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fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Material property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007. For fiscal year ended June 30, 2008, the per pupil foundation allowance was \$7,204 for Forest Area Community Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from

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October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government or the State of Michigan.
- (b) Certificates of deposit issued by financial institutions organized and authorized to operate in Michigan.
- (c) Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Michigan Investment Liquid Asset Fund Plus (MILAF).

The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

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JUNE 30, 2008

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1 and are billed and due December 1. Unpaid taxes become delinquent as of February 14th and are subject to penalties and interest after that date. Uncollected taxes at year-end are not material.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	17.9543
Debt Service Fund - Homestead and Non-homestead	1.2000

4. Inventories

Inventories are valued at cost. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings	30-40 years
Improvements, Other than Buildings	5 years
Furniture and Other Equipment	5-20 years
Transportation Equipment	8 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

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6. Accumulated Leave Liability

Employees of the School District accumulate days of compensated sick leave, as specified by the bargaining units' contract. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The District has opted to apply the provisions of GASB 34 paragraph 146 which allows the amortization of premiums, discounts and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2002.

8. Fund Balance

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend budgets during the year. During the year, the budget was amended in a legally permissible manner.

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which good or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

School Service Fund – Athletic expenditures of \$151,541 exceeded appropriations of \$122,000 by \$29,541.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments - Credit Risk

Investment rate risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

Credit risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

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Concentration of credit risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2008, none of the government's bank balance of \$1,430 was exposed to custodial credit risk.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end all of the District's investments were uncategorized as to risk.

At year-end, the District had the following investments:

Investments not subject to categorization:

Michigan Investment Liquid Asset Fund \$ 1,175,369

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2008, the fair value of the District's investments is the same as the value of the pool shares.

Balance sheet classifications:

	Fiduciary			
	Deposits	Investments	Assets	Total
Cash	\$ 644	\$ 0	\$ 786	\$ 1,430
Investments	0	1,127,650	47,719	1,175,369
	<u>\$ 644</u>	<u>\$ 1,127,650</u>	<u>\$ 48,505</u>	<u>\$ 1,176,799</u>

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate; including the applicable allowances for uncollectible accounts, are as follows:

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	General	Nonmajor and Other Funds	Total
Receivables			
Due from Other Governments	\$ 1,041,056	\$ 2,834	\$ 1,043,890

The allowance for doubtful accounts is not considered to be material for disclosure.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, there was no deferred revenue reported in the governmental funds.

C. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital Assets, not being depreciated	\$ 99,360	\$ 0	\$ 0	\$ 99,360
Capital Assets being depreciated				
Buildings and improvements	5,158,894	0	0	5,158,894
Improvements other than buildings	402,454	21,005	0	423,459
Furniture and equipment	428,683	38,515	0	467,198
Transportation equipment	928,986	100,500	108,740	920,746
Subtotal	6,919,017	160,020	108,740	6,970,297
Less accumulated depreciation for:				
Buildings and improvements	3,112,609	122,188	0	3,234,797
Improvements other than buildings	132,404	20,123	0	152,527
Furniture and equipment	208,380	23,837	0	232,217
Transportation equipment	620,651	73,495	78,855	615,291
Accumulated depreciation	4,074,044	239,643	78,855	4,234,832
Net Capital Assets being depreciated	2,844,973	(79,623)	29,885	2,735,465
Net Capital Assets	\$ 2,944,333	\$ (79,623)	\$ 29,885	\$ 2,834,825

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Depreciation for the fiscal year ended June 30, 2008, amounted to \$239,643. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of the long-term debt transactions for the School District for the year ended June 30, 2008:

	ACCUMULATED SICK LEAVE			BONDS	TOTAL
Balance, July 1, 2007	\$	304,372	\$	1,253,701	\$ 1,558,073
Additions		0		0	0
Deletions		(672)		(275,000)	(275,672)
Balance, June 30, 2008		303,700		978,701	1,282,401
Less current portion		0		(206,947)	(206,947)
Total due after one year	\$	303,700	\$	771,754	\$ 1,075,454

At June 30, 2008, the School District's long-term debt consisted of the following:

2006 Refunding Bonds; due in annual installments of \$155,000 to \$170,000 through May 1, 2013; interest rate of 3.00% to 3.50%.	\$ 815,000
2000 Energy Conservation Improvement Bonds; due in annual installments of \$45,000 through May 1, 2010; interest rate of 3.00% to 6.00%.	90,000
1998 School Improvement bond (Durant); due in installments of \$6,947 to \$43,487 through May 1, 2013. This debt will be repaid using revenue provided by the State of Michigan specifically for this purpose.	73,701
Total Bonds Payable	978,701
Unamortized Refinancing Costs	(42,481)
Accumulated Sick Leave	303,700
Total Long-Term Debt	\$ 1,239,920

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JUNE 30, 2008

The annual requirements to amortize all debt outstanding as of June 30, 2008, including interest payments of \$111,966 are as follows:

YEAR ENDING JUNE 30,	Principal	Interest	Amounts Payable
2009	\$ 206,947	\$ 33,531	\$ 240,478
2010	212,277	26,301	238,578
2011	167,624	18,481	186,105
2012	213,487	27,304	240,791
2013	178,366	6,349	184,715
	978,701	111,966	1,090,667
Accumulated Sick Leave	303,700	0	303,700
	<u>\$ 1,282,401</u>	<u>\$ 111,966</u>	<u>\$ 1,394,367</u>

The annual requirements to amortize the accrued sick leave are uncertain because it is unknown when the repayments will be made.

E. Interfund Receivables, Payables, and Transfers

Outstanding balances between funds reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year end, and other miscellaneous receivables/payables between funds.

	INTERFUND RECEIVABLES	INTERFUND PAYABLES
2005 Debt	\$ 2,538	\$ 0
General Fund	0	2,538
	<u>\$ 2,538</u>	<u>\$ 2,538</u>

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

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JUNE 30, 2008

	TRANSFERS IN	TRANSFERS OUT
General Fund	\$ 0	\$ 133,890
School Service Fund - Athletics	133,890	0
	<u>\$ 133,890</u>	<u>\$ 133,890</u>

F. Short-Term Debt

The District borrowed through a State Aid Note \$1,200,000 plus interest at 3.68%. This note has a balance of \$157,044 as of June 30, 2008, and was due in July 2008. The District will be borrowing an additional \$1,100,000 at 1.63% due August 20, 2009.

NOTE 4 - OTHER INFORMATION

A. Employee Retirement System

Plan Description. The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the nine member board of MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (517) 322-5103.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990, or later and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

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The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008, were 17.74% of payroll through September 30, 2007, and 16.72% effective October 1, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2008, 2007, and 2006 were \$647,901, \$709,897 and \$677,567 respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post Employment Benefits Funding Policy

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

C. Durant Settlement

As a result of the Durant v State of Michigan settlement regarding State underfunding of school revenues, the School District will be receiving \$12,482 per year over a ten-year period beginning November 15, 1998. This represents 50% of the expected funds. For the remaining 50% of the funds from this settlement, or \$124,819, the School District has opted to participate in a bonding program enabling it to receive a lump-sum payment on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999 using revenues provided by the State specifically for this purpose. Settlement proceeds are restricted for use on school buses, electronic instructional material and software, school security, textbooks, technology, infrastructure or infrastructure improvement, training for technology, or to reduce or eliminate voter-approved debt issued prior to November 19, 1997.

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JUNE 30, 2008

D. Sale of Future Revenues

For several years, the District has sold its rights to delinquent real property tax revenues and related late payment penalties to the Grand Traverse and Kalkaska County treasurers. For the 2007 tax roll the District received a lump sum payment of \$131,952 for general operating tax revenues and \$21,499 for debt service tax revenues. These amounts represent 100% of the present value of the delinquent real property tax revenues. In exchange for these payments, the county is allowed to keep the delinquent taxes collected plus the late payment penalties charged. If the county is ultimately unable to collect any of these delinquent taxes, the District will have to repay the county.

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REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Local and Intermediate Sources	\$ 1,089,002	\$ 1,263,658	\$ 1,266,913
State Sources	5,563,262	5,559,304	5,565,819
Federal Sources	349,741	351,290	347,055
Total Revenues	7,002,005	7,174,252	7,179,787
<u>EXPENDITURES</u>			
Instruction	4,620,703	4,548,915	4,546,665
Supporting Services	2,180,636	2,330,727	2,321,190
Debt Services	125,000	125,000	125,000
Total Expenditures	6,926,339	7,004,642	6,992,855
Excess (Deficiency) of Revenues Over Expenditures	75,666	169,610	186,932
<u>OTHER FINANCIAL SOURCES (USES)</u>			
Transfers Out	(120,305)	(133,891)	(133,890)
Net Change in Fund Balance	(44,639)	35,719	53,042
<u>FUND BALANCE</u> - Beginning of Year	827,113	851,319	851,319
<u>FUND BALANCE</u> - End of Year	\$ 782,474	\$ 887,038	\$ 904,361

FOREST AREA COMMUNITY SCHOOLS
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COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	<u>SPECIAL REVENUE FUNDS</u>		<u>DEBT SERVICE FUNDS</u>		<u>TOTAL NON-MAJOR GOVERNMENTAL</u>
	<u>FOOD SERVICE</u>	<u>ATHLETICS</u>	<u>1998 DURANT BOND</u>	<u>2005 REFUNDING BOND</u>	
<u>ASSETS</u>					
Cash	\$ 436	\$ 0	\$ 0	\$ 0	\$ 436
Due from Other Governments	2,834	0	0	0	2,834
Due from Other Funds	0	0	0	2,538	2,538
Inventory	6,864	0	0	0	6,864
Investments	47,443	0	0	70,662	118,105
Total Assets	<u>\$ 57,577</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 73,200</u>	<u>\$ 130,777</u>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Accounts Payable	<u>\$ 2,760</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,760</u>
<u>FUND BALANCES</u>					
Reserved for Debt Retirement	0	0	0	73,200	73,200
Reserved for Inventory	6,864	0	0	0	6,864
Unreserved, Designated for:					
Food Service	<u>47,953</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>47,953</u>
Total Fund Balances	<u>54,817</u>	<u>0</u>	<u>0</u>	<u>73,200</u>	<u>128,017</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 57,577</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 73,200</u>	<u>\$ 130,777</u>

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

COMBINING STATEMENT OF REVENUES EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

	SPECIAL REVENUE FUNDS			DEBT SERVICE FUNDS			TOTAL NON-MAJOR GOVERNMENTAL
	FOOD SERVICE	ATHLETICS	TOTAL	1998 DURANT BOND	2005 REFUNDING BOND	TOTAL	
<u>REVENUES</u>							
Property Taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 157,815	\$ 157,815	\$ 157,815
Interest	2,161	0	2,161	0	4,147	4,147	6,308
State Sources	19,132	0	19,132	0	0	0	19,132
Federal Sources	265,615	0	265,615	0	0	0	265,615
Other	85,007	17,651	102,658	0	0	0	102,658
Total Revenues	371,915	17,651	389,566	0	161,962	161,962	551,528
<u>EXPENDITURES</u>							
Food Service	383,010	0	383,010	0	0	0	383,010
Athletic	0	151,541	151,541	0	0	0	151,541
Debt Service							
Principal	0	0	0	0	150,000	150,000	150,000
Interest	0	0	0	0	31,690	31,690	31,690
Other	0	0	0	0	225	225	225
Total Expenditures	383,010	151,541	534,551	0	181,915	181,915	716,466
Excess (Deficiency) of Revenues Over Expenditures	(11,095)	(133,890)	(144,985)	0	(19,953)	(19,953)	(164,938)
<u>OTHER FINANCING SOURCES (USES)</u>							
Transfers In	0	133,890	133,890	0	0	0	133,890
Net Change in Fund Balance	(11,095)	0	(11,095)	0	(19,953)	(19,953)	(31,048)
<u>FUND BALANCE</u> - Beginning of Year	65,912	0	65,912	0	93,153	\$ 93,153	\$ 159,065
<u>FUND BALANCE</u> - End of Year	\$ 54,817	\$ 0	\$ 54,817	\$ 0	\$ 73,200	\$ 73,200	\$ 128,017

FOREST AREA COMMUNITY SCHOOLS

FIFE LAKE, MICHIGAN

FIDUCIARY FUND TYPES

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE

YEAR ENDED JUNE 30, 2008

	BALANCE	RECEIPTS	DISBURSEMENTS	BALANCE
	7/01/07	(Including Transfers)		6/30/08
Alumni	\$ 0	\$ 88	\$ 88	\$ 0
Kyselka Donation	739	51	250	540
Elementary Student Council	(8)	488	0	480
Athletics	0	56,363	56,648	(285)
Band	941	1,008	1,299	650
Forest Area Leadership	28	0	0	28
Class of 2008	282	1,137	1,419	0
PPI Grant	673	0	523	150
Drama	402	0	0	402
Middle School Student Council	3,610	5,291	5,846	3,055
South Boardman Elementary Account	1,180	17,848	14,587	4,441
Fife Lake Elementary Pop	193	67	0	260
Fife Lake Elementary	4,209	20,893	8,977	16,125
High School Pop	880	492	804	568
Miscellaneous	405	2,116	2,059	462
National Honor Society	159	196	247	108
CO Donation	(85)	1,420	1,120	215
Preschool	51	12,906	11,401	1,556
Shop	144	8,387	7,519	1,012
Special Olympics	1,508	61	0	1,569
High School Store	460	439	284	615
High School Student Council	537	519	512	544
Middle School Pop	859	208	517	550
Yearbook	(3,618)	5,061	0	1,443
High School Activity	977	69	0	1,046
Elementary Art	475	0	164	311
High School Special Education	2,401	402	151	2,652
Middle School Special Education	647	20	32	635
Special Education	411	0	0	411
Chorale	799	19,840	20,099	540
Middle School Store	(197)	391	21	173
Schwaz Donation	58	0	55	3
Apparel Store	(3,831)	1,217	439	(3,053)
High School Art	21	2,935	586	2,370
Grant	0	2,238	1,808	430
Print ID	0	4,338	4,468	(130)
Class of 2009	868	5,052	4,704	1,216

FOREST AREA COMMUNITY SCHOOLS

FIFE LAKE, MICHIGAN

FIDUCIARY FUND TYPES

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE

YEAR ENDED JUNE 30, 2008

	BALANCE	RECEIPTS	DISBURSEMENTS	BALANCE
	7/01/07	(Including Transfers)		6/30/08
First Grade Donation	274	0	0	274
Class of 2010	0	1,748	732	1,016
Class of 2011	0	708	566	142
Baseball	0	1,362	1,626	(264)
Boys Basketball	0	4,056	3,388	668
Girls Basketball	0	563	0	563
Football	0	1	0	1
Boys Soccer	0	1,255	0	1,255
Girls Soccer	0	242	0	242
Softball	0	991	0	991
Volleyball	0	2,159	882	1,277
Wrestling	0	1,173	762	411
Equestrian	0	71	0	71
Track	0	1,895	1,129	766
Total	<u>\$ 16,452</u>	<u>\$ 187,765</u>	<u>\$ 155,712</u>	<u>\$ 48,505</u>
Represented by				
Assets				
Cash and Cash Equivalents	\$ 30			\$ 786
Investments	<u>16,422</u>			<u>47,719</u>
Total Assets	<u>\$ 16,452</u>			<u>\$ 48,505</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 16,452</u>			<u>\$ 48,505</u>

Baird, Cotter and Bishop, P.C.

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August 13, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Forest Area Community Schools
Fife Lake, Michigan

COMPLIANCE

We have audited the compliance of Forest Area Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Forest Area Community Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Forest Area Community Schools' management. Our responsibility is to express an opinion on Forest Area Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Forest Area Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Forest Area Community Schools' compliance with those requirements.

In our opinion, Forest Area Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

INTERNAL CONTROL OVER COMPLIANCE

The management of Forest Area Community Schools' is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Forest Area Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is a more than remote likelihood that noncompliance with a type of compliance requirement of a federal program is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Forest Area Community Schools, as of and for the year ended June 30, 2008, and have issued our report thereon dated August 13, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Forest Area Community Schools' basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, others within the District, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2007	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2008	ADJUSTMENTS
U.S. Department of Education								
Passed Through Michigan Department of Education (M.D.E.)								
ESEA Title I - Part A								
Project No. 081530-0708	84.010	\$ 235,448	\$ 0	\$ 0	\$ 235,448	\$ 235,448	\$ 0	\$ 0
Title V LEA Allocation								
Project No. 080250-0708	84.298	1,754	0	0	1,754	1,754	0	0
Title VI Part B								
Project No. 080660-0708	84.358B	25,415	0	0	25,415	25,415	0	0
Title II D Technology Literacy Challenge								
Project No. 084290-0708	84.318	2,241	0	0	2,241	2,241	0	0
Title II A - Improving Teacher Quality								
Project No. 080520-0708	84.367	59,981	0	0	59,981	59,981	0	0
Total Passed Through M.D.E.		324,839	0	0	324,839	324,839	0	0
Passed Through Traverse Bay Area Intermediate School District (I.S.D.)								
Preschool								
Project No. 080460-0708	84.027A	8,882	0	0	8,882	8,882	0	0
Transition Grant								
Project No. 080490 TS	84.027	588	0	0	588	588	0	0
Total Passed Through Traverse Bay ISD		9,470	0	0	9,470	9,470	0	0
Indian Education -Grants to Local Education								
Project No. S060A060634	84.060A	11,907	0	0	10,638	10,638	0	0
Total U.S. Department of Education		346,216	0	0	344,947	344,947	0	0

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR PASS THROUGH GRANTOR PROGRAM TITLE/ GRANT NUMBER	FEDERAL CFDA NUMBER	APPROVED GRANT AWARD AMOUNT	INVENTORY/ ACCRUED (DEFERRED) REVENUE JULY 1, 2007	(MEMO ONLY) PRIOR YEAR EXPENDITURES	(A) CURRENT YEAR EXPENDITURES	CURRENT YEAR RECEIPTS (CASH BASIS)	INVENTORY/ ACCRUED (DEFERRED) REVENUE JUNE 30, 2008	ADJUSTMENTS
U.S Department of Agriculture								
Passed Through Michigan Department of Education								
Child Nutrition Cluster								
National School Lunch								
Section 4 - Total Servings - 061950 and 071950	10.555	25,922	0	0	24,757	24,757	0	0
Section 11 - Total Servings - 061960 and 071960	10.555	138,566	0	0	148,303	148,303	0	0
Total	10.555	164,488	0	0	173,060	173,060	0	0
Summer Food Service Program for Children	10.559	2,834	0	0	2,834	0	2,834	0
National School Lunch - Breakfast								
Breakfast - 061970 and 071970	10.553	75,980	0	0	75,979	75,979	0	0
Total Child Nutrition Cluster		243,302	0	0	251,873	249,039	2,834	0
Food Distribution								
Entitlement Commodities	10.550	13,411	0	0	13,411	13,411	0	0
Bonus Commodities	10.550	331	0	0	331	331	0	0
Total	10.550	13,742	0	0	13,742	13,742	0	0
Total Passed Through M.D.E.		257,044	0	0	265,615	262,781	2,834	0
Total U.S. Department of Agriculture		257,044	0	0	265,615	262,781	2,834	0
U.S. Department of Health and Human Services								
Passed Through Traverse Bay Area ISD								
Medicaid-School Based Services Transportation	93.778	2,108	0	0	2,108	2,108	0	0
Total Federal Financial Assistance		\$ 605,368	\$ 0	\$ 0	\$ 612,670	\$ 609,836	\$ 2,834	\$ 0
					(B)	(C)		

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(A) Significant Accounting Policies Used in Preparing Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting and presents transactions in the same manner as reflected in the basic financial statements of the school district. The significant accounting policies used are described in footnote (1) to the June 30, 2008, basic financial statements.

(B) Reconciliation of Revenues with Expenditures for Federal Financial Assistance Programs

Federal Revenues from Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balance	\$ 612,670
Federal Expenditures per Schedule of Expenditures of Federal Awards	\$ 612,670

(C) Reconciliation of Grant Section Auditor's Report with Schedule of Expenditures of Federal Awards

Management has utilized the CMS Grant Section Auditor's Report in preparing the Schedule of Expenditures of Federal Awards.

Current Cash Payments per CMS Grant Section Auditor's Report Dated July 12, 2008	\$ 335,675
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Add Items Not on Grant Section Auditor's Report:

Amounts Received as Pass Through from Intermediate School District		
Medicaid School Based Services	\$ 2,108	
IDEA Transition Grant	588	
Preschool Grant	8,882	
Amounts Received as Pass Through from Michigan Department of Education, Child Nutrition Cluster	249,039	
Amounts Received from U.S. Department of Education Indian Education	10,638	
Amounts Received as Payments in Kind Food Distribution Program		
Entitlement Commodities	13,742	284,997
Deduct Items Included on the Grant Auditor Report in Error		
Fiscal Year 2005 Payments		
Title II, Part D	\$ (5,412)	
Title V, Part A	(5,424)	(10,836)
Current Year Receipts (Cash Basis) per Schedule of Expenditures of Federal Awards		\$ 609,836

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August 13, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Forest Area Community Schools
Fife Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Forest Area Community Schools as of and for the year ended June 30, 2008, which collectively comprise Forest Area Community Schools' basic financial statements and have issued our report thereon dated August 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Forest Area Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Forest Area Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Forest Area Community Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the district's financial statements that is more than inconsequential will not be prevented or detected by the district's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs (Item 2008-A) to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the district's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Forest Area Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Forest Area Community Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, others within the district, and federal awarding agencies and pass-through agencies and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

2007 - A

The relatively small number of people involved in the accounting functions of the District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable condition noted above was not considered to be a material weakness.

Correction Action Plan

Inadequate segregation of duties.

With the status of state funding, the District is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Procedures for improvement will continue to be examined and, if practical implemented.

Questioned
Costs

N/A

2007-B

Title 1 - CFDA No. 84.010
Passed Through Michigan Department of Education
Project No. - All Projects
Grant Period July 1, 2006 to June 30, 2007

Statement of Condition:

The District did not comply with OMB Circular A-87 regarding federal timekeeping requirements.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Criteria:

“Time/salaries spent working on federal programs must be documented for co-funded and 100% funded staff in compliance with OMB Circular A-87, Attachment B, Item 8h. Acceptable methods for co-funded staff include written schedules if they are documented by personnel activity reports (PARs) confirming that the schedules were followed (e.g., directors, secretaries, counselors). The PARs must be prepared at least monthly, be signed and dated by the employee, and account for the staff person’s total activity. Time sheets and other records should be completed after-the-fact. Employees should never guess the amount of hours they will spend on federal programs before work is actually performed.”

“Instructional staff may use their lesson plans to confirm that their written schedules were followed if: (1) after-the-fact notes are made on those plans to indicate the completion of each scheduled activity; (2) the lesson plans account for the total time the employee is compensated; (3) the lesson plans are prepared at least monthly and coincide with one or more pay periods; and (4) the completed lesson plans are signed by the employee. If a district elects to use this method, it must retain the lesson plans as timekeeping records.”

“Para professionals may use their regular time sheets as long as they; a) reflect an after the fact distribution of their actual activity, (b) account for the total activity for which they are compensated, showing the hours or percentages for the programs they worked on, (c) are prepared at least monthly and coincide with one or more pay periods, and (d) are signed by the employee.”

“OMB Circular A-87 requires that when employees are expected to work solely on a single federal award or cost objective, charges for their salaries will be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or a supervisor with first-hand knowledge of the work performed by the employee. If a supervisor has first-hand knowledge of work performed by several employees each working on a single cost objective, the supervisor can use a blanket certification that lists all of the employees, the program that they worked on and the period covered. One supervisory signature would be adequate.”

Effect:

Without the required certifications and timekeeping support, the District has increased the risk that federal funds may be expended on non-federal expenditures. We however, did not note any unallowable expenditures of this type occurring.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Cause:

The District did not obtain the required timekeeping documents on federal funded positions.

Auditor Recommendation:

The District should obtain the required certifications set forth by OMB Circular A-87.

District Response:

The District will immediately begin to comply with this requirement.

Corrective Action Plan:

The District will comply with it by keeping the required timekeeping documents and obtaining necessary certifications.

FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

A. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:	Unqualified		
Material weakness(es) identified:	<u> </u> Yes	<u> X </u> No	
Significant deficiencies identified that are not considered to be material weaknesses?	<u> X </u> Yes	<u> </u> No	
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Material weakness(es) identified:	<u> </u> Yes	<u> X </u> No	
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> </u> Yes	<u> X </u> No	

Type of auditors' report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133?	<u> </u> Yes	<u> X </u> No	

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.367	Title II A - Improving Teacher Quality
10.553 and 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	<u> </u> Yes	<u> X </u> No
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FOREST AREA COMMUNITY SCHOOLS
FIFE LAKE, MICHIGAN

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

B. Findings and Questioned Costs – Basic Financial Statements Audit

2008 – A

The relatively small number of people involved in the accounting functions of the District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. The reportable condition noted above was not considered to be a material weakness.

Corrective Action Plan

Inadequate segregation of duties.

With the status of state funding, the District is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Procedures for improvement will continue to be examined and, if practical implemented.

C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

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August 13, 2008

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Education
Forest Area Community Schools
Fife Lake, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forest Area Community Schools for the year ended June 30, 2008, and has issued our report thereon dated August 13, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 13, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Forest Area Community Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Forest Area Community School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Forest Area Community Schools are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed several adjusting journal entries which were reviewed and accepted by management. No material misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 13, 2008.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

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